

Growth and Performance of Rural Banks

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Abstract

The Bank is the most important financial institutions and greatly affect the economy both micro and macro. Rural Banks (BPR) is one financial institution established to serve the needs of the service banking services for the economically weak, especially small businesses in Indonesia. Bank plays a major role in helping to capital and business development community. This study aims to analyze the growth created by RB from various areas as measured by several performance from RB various regions in Indonesia. regional economy is viewed by using descriptive analysis of time series from the period 2009 to 2010. Based on the analysis, can be seen that in fact the performance of rural banks has grown from the period 2009 to the period of 2010.

Keywords : RB (Rural Bank), growth, performance.

1 Introduction

1.1 Background

The Bank is the most important financial institutions and greatly affect the economy both micro and macro. The role of banks for the development of the business world is also considered quite significant, where banks play a major role in helping to capital and business development community. In Indonesia, banks have a market share of 80 percent of entire existing financial system.

One financial institution that is expected to perform the above functions are Rural Bank (RB). Restricted operational area of RB only in rural / district theoretically would encourage rural banks to reach

rural communities, which are directly or indirectly will encourage rural economic activities. Thus, RB may be expected as the financial institutions that have a role in stimulating rural economic growth, which in the long run will strengthen the rural economy/ people. (Suryati Rizal, University of Indonesia). Loans disbursed ODA would certainly strongly encourage the real sector, especially the empowerment of SME sector is very touching people's economy. Because the focus of BPR SMEs engaged in the sector.

The purpose and main objectives in the establishment of rural banks in rural areas in particular is to open up access to rural communities and small businesses to get loans to develop businesses and improve its economy. RB itself until recently has been experiencing significant growth.

2 Theoretical Background

2.1 Definition of Rural Banks

One of the financial institutions that extend credit are the RB that is defined by the Act No.10 of 1998 as a bank conducting business in a conventional and / or based on sharia principles in their actions do not provide services in payment traffic. The operations that can be done by a complete BPR is to collect funds from the public in the form of savings in the form of time deposits, savings, and other equivalent forms of it, providing credit, providing financing and placement of funds based on Islamic principles in accordance with the provisions stipulated by Bank Indonesia, and placing funds in Bank Indonesia Certificates (SBI), time deposits, and savings in other banks.

2.2 Definition Of Performance Indicators RB

- Return on Total Assets (ROA)
is the ratio that measures the ability of the capital.
- Return on Equity (ROE)
is an indicator to measure the success of management in order to perform tasks that generate the maximum profit for the owners of capital.
- Capital Adequacy Ratio (CAR)
is the ratio of bank performance to measure the adequacy bank-owned capital to support assets that contain or produce risk.

- Non Performing Loans (NPLs)
are loans that go into credit quality less sub-standard, doubtful and loss based on the criteria established by the Bank Indonesia (SENo.7/3/DPNP).
- Third Party Fund (TPF)
is raising funds from outside parties except Bank.

3 Research Method

Data used in this research is secondary data, namely on to them from previous research journals, articles, and public financial statements of the Indonesian Banking Statistics to discuss the performance of ODA for the period 2009 to 2010 obtained from the BI website, www.bi.go.id. Variables examined in this study were measured from the BPR performance ROA, ROE, LDR, CAR, growth in total assets, NPL, deposits, and the number of offices. The author uses descriptive analysis, using time series analysis to examine data BPR performance during the period of 2 years, from 2009-2010.

4 Result and Discussion

4.1 BPR Performance in General

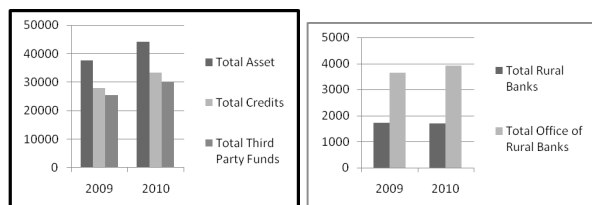


Figure 1: Development of performance indicators in 2009-2010 RB

In general, BPR indicate performance tends to increase, this can be seen from the increased volume of ODA effort in October 2010 which reached Rp44, 17 trillion or an increase of 23.03%. Rural lending also experienced a significant increase in the amount of 20.58% to be Rp33, 28 billion. Supporting Rural Bank against SMEs indicated by the fixed height of microcredit and small portion of 50.10% of total loans. In the same period, ODA funding also increased by 23.08% from Rp24, 54 trillion to Rp30, 06 trillion.

Although the number of conventional BPR final position in October 2010 has decreased as much as 37 RBs from the same position the previous year to reach 1707 RB extensive branch network by 1059. But in general, BPR industry shows that performance tends to increase, reflected by the increase in business volume RB position in October 2010 which reached Rp44, 17 trillion or an increase of 23.03%

compared to the same position the previous year. In the same period, ODA loans increased by 20.58% to be Rp33, 28 trillion. RB alignments to (SMEs) are shown by still high share of micro and small loans amounting to 50.10% of total loans. Meanwhile, in the same period of ODA funding also increased by 23.08% or from Rp24, 54 trillion to Rp30, 06 trillion. [<http://www.bi.go.id>, 2010].

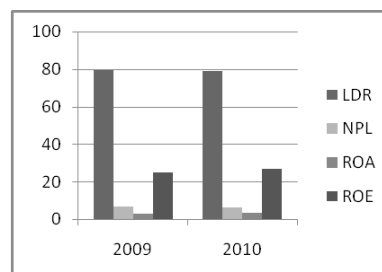


Figure 2: Performance of Rural Development based on key indicators

Relatively high rates of increase in ODA loans followed by a slight increase in the ratio of Loan to Deposit Ratio (LDR), BPR, namely from 81.94% to 82.06%. The increase is accompanied by a decline LDR Earning Asset quality ratios (KAP) and NPL (both gross and net), indicating fairly good credit quality of RB. On the other hand, in line with the increase in credit a decline in the cash rate ratio RB from 15.28% to 15.24%. Meanwhile, in terms of profitability, performance continued to improve with increasing RB Return on Assets (ROA) and a decrease BOPO (Operating Expenses to Operating Income).

The condition is relatively stable and capital RB CAR originally indicated by 23.69% in October 2009 to 29.89% in October 2010. The increase was triggered by the existence of obligations fulfillment of minimum paid-up capital of 100% at the end of 2010. However, until the end of October 2010 is still there RB 218 (12.77%) which do not meet these capital requirements. Associated with the development of rural banks lending rates, though still relatively high in the range of 20.69% (for loans with a large ceiling) up to 38.85% (for agricultural sector credit), the average interest rate of ODA loans decreased by 0, 73%, ie from 32.42% to 31.19%. Rural credit interest rate cuts are in line with the decline in deposit rates, as reflected in deposit rates and savings rates which decreased respectively by 0.73% and 0.61% from the same position in the previous year to be 10, 23% and 5.77%. [<http://www.bi.go.id>, 2010]

4.2 Regional Economic Growth

Entering the last quarter period of 2010, the economy of various regions showed improved development. Economic growth in Java, Jakarta, and eastern Indonesia is estimated to be above 6.0%, while

the Sumatran economy forecast to grow at around 5%. [http://www.bi.go.id, 2010]

Table 1: Regional Economic Growth

	2009	2010
Sumatera	3.4	5.2
Northern Sumatra	2.5	5.6
Central Sumatra	3.6	4.6
Southern Sumatra	4.4	5.6
JAKARTA	5.0	6.3
JAVA	4.6	6.1
Western Java	4.4	6.0
Central Java	4.7	5.5
Eastern Java	5.0	6.6
Eastern Indonesia	8.0	6.0
Balnustra	6.3	7.7
Kalimantan	3.4	5.8
Sulampua	8.9	5.7
INDONESIA	4.5	6.0

Here's a little review about the role of RB on the growth of regional economy :

Java

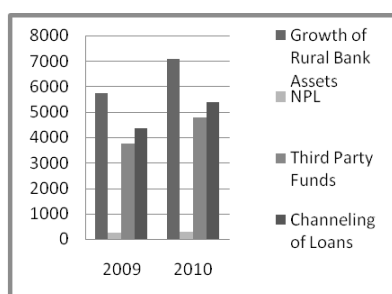


Figure 3: Rural Development in Java

he role of bank financing in the economy in Java continues to improve. It is marked at the national level an increase in credit growth to reach 21.6% (yoy) or reach Rp415, 65 trillion, with 33.7% of whom are SMEs credit. The highest credit growth in the region achieved by Java Western Java region of Banten and West Java with respective growth of 31.03% (yoy) and 25.77% (yoy). Outstanding value of loans disbursed by rural banks in Java region increased from the year 2009 amounted to Rp17, 822 trillion to Rp20, 991 trillion in 2010. Total assets of all rural banks in the area of Java has increased rapidly in the fourth quarter of 2010 reached Rp28.174 trillion, up from the previous Rp23, 575 trillion. On the other hand, the Third Party Funds (TPF) collected in the area of Java RB also rose. If in the fourth quarter of 2009 RB Deposits Java area of Rp16, 157 billion. While non-performing loans (NPLs) that occurred in the region participated Java increased by Rp105 billion from the previous year Rp1340 billion to Rp1.445 trillion.

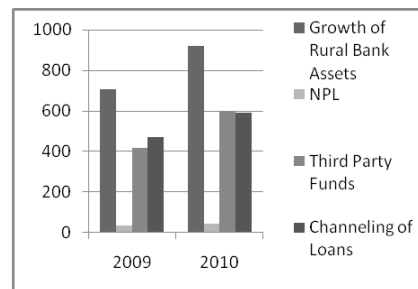


Figure 4: Rural development in the Jakarta area

Jakarta's economy in the fourth quarter 2010 is expected to continue growing at above 6.0% (yoy). The performance of the financial sector, PHR sector, industrial sector and improving the factors that sustain economic growth in Jakarta remains high. RB role in advancing the efforts of rural communities is quite successful in this area. Seen from the BPR performance in lending in the area pretty good, ballooned from a year earlier due to Rp473 billion to Rp592 billion at the end of December 2010. Third Party Fund (TPF) collected by RB also rose rapidly from Rp420 billion to Rp600 billion. But this is followed by the increase in SME credit problems who rose to Rp10 billion from the previous amount of NPLs in 2009 amounted to Rp36 billion.

Sumatera

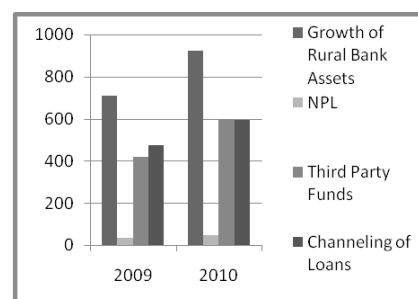


Figure 5: Rural development in the region of Sumatera

At the national level, the economic growth of Sumatra by the fourth quarter of 2010 expected to to accelerate to 5.4 % (yoy), compared to previous quarter (5.3 %). Increased economic growth will be sustained improvement in economic performance of Northern Sumatra (Sumbagut) and Central Sumatra (Sumbagteng). Overall, the economy of Sumatra in 2010 is estimated to grow at around 5%. Rural development in the area of performance is quite encouraging. Seen from the development of the entire assets of rural banks in the region reached Rp9.396 trillion, up from the previous period Rp 7.522 billion. Total ODA disbursed loans to rural communities in this region increased significantly in late 2010 in the amount of Rp6873

billion, from the previous period Rp5347 billion. Third party funding to support community business activity also increased from the previous Rp5, 217 trillion, in the next year reached Rp6.827 billion. NPL (non performing loans / NPLs) rose from Rp295 billion in 2009 to Rp298 billion in 2010.

Eastern Indonesia

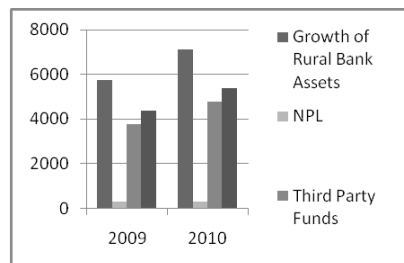
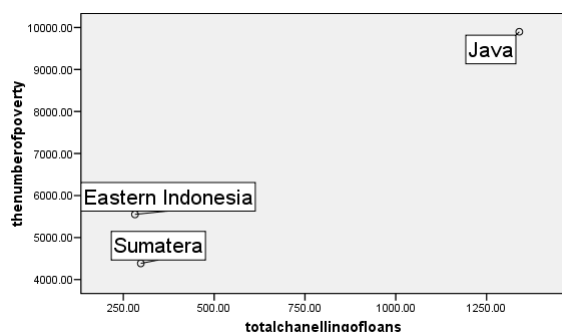


Figure 6: Rural Development in Eastern Indonesia

From the institutional side, the banking Eastern Indonesia (KTI) is currently supported by 3124 of-office networks, grew by 6.29% over the previous year. At the national level, the Third Party Funds that have been collected as of October 2010 EI banks grew by 12.62%, lower than the growth in the late third quarter 2010 (September) amounted to 14.03%. Rural property development in eastern Indonesia has increased from the prior year period Rp5, 744 billion, in the next period through the numbers Rp7, 095 billion. The accumulation of deposits reached Rp4, 776 billion in the period this year, an increase from the previous Rp3.756 trillion. Loans in ODA in ensuring the region reached Rp5387 trillion, an increase from the previous only Rp4360 trillion. But unfortunately, the increase in loans has been accompanied by the amount of non-performing loans (NPLs), which used to only Rp263 billion, at a later period of the year 2010 increased to Rp282 billion.

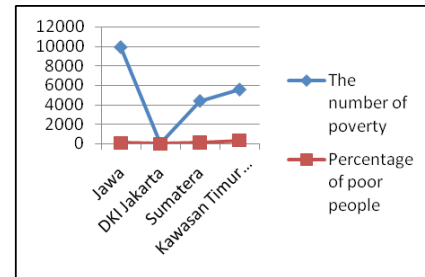
4.3 Analysis result



4.4 Poverty

Poverty is a phenomenon closely related to socio-economic conditions in rural areas in general and

in the agricultural sector in particular. Therefore, the phenomenon of poverty in Indonesia can not be fully understood without understanding the phenomenon of poverty in rural or agricultural sector



From BPS data show that the number of poor people to the area of Java as much as 9.898 million people. For the area of Jakarta, in 2010 there were no poor people. This is because in this region there are no rural areas, only urban areas only. For the Sumatra region, the number of poor people as much as 4.385 million people. And to eastern Indonesia, the number of poor people as much as 5.551 million people. This means that the highest levels of poverty found in the area of Java and to the lowest levels of poverty found in the region of Sumatra.

5 Conclusion

From these results, concluded that the performance of BPR experience significant growth both in terms of lending, collecting funds from third parties, affordability growth locations in the area of rural communities dotted throughout the territory of Indonesia. The largest contribution RB growth occurred in the area of Java, which is dominated by the increase in performance in the areas of West Java and Central Java. Where credit disbursement achieved the highest growth of any other region, with Rp20991 trillion reached in the period in the fourth quarter of 2010. While lending in the area of Jakarta is the lowest growth, possibly because this region is dominated by the business community the city that is equal to Rp592 billion by the end of the end of 2010. In the meantime (NPL) NPL nationally decreased by 0.78% from 6.90% in 2009 to 6.12%. Increased lending in the area of Java, followed by the growth of non-performing loans which rose 105 billion from the previously Rp1.340 billion to Rp1.445 miliar. Sementara of fund raising side, the highest deposits are dominated by areas of Java also, with a total fund-raising achievement Rp19 .107 billion from the previous only Rp16.157 billion. The increase in total assets was also quite encouraging development of the whole region, in the region increased by Rp4.599 billion Java, Jakarta is also increased by Rp214 billion, while in the Sumatra region rose to 1874 billion, and Eastern Indonesia through the numbers Rp1.351 billion.

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